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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 002542

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SUBJECT: SUSTAINABLE ECONOMIC DEVELOPMENT CONFERENCE - TSU
WITHDRAWS, CROSS-STRAIT OPENING TO PROCEED

REF: A. TAIPEI 1644

- 1B. TAIPEI 2307
- 1C. TAIPEI 2365
- 1D. TAIPEI 2462
- 1E. TAIPEI 2488

Classified By: AIT Director Stephen M. Young, Reason 1.4 b/d

11. (C) Summary: On July 28, the second day of Taiwan's two-day Sustainable Economic Development Conference (SEDC), Taiwan Solidarity Union (TSU) members eliminated cross-Strait opening measures from the conference's draft recommendations. However, Premier Su and Vice Premier Tsai reinserted them in a surprise move as non-consensus "other opinions." The move drove the "Deep Green" TSU to withdraw from the conference but sent a strong signal of Su's intention to proceed with cross-Strait opening in the face of strong Deep Green opposition. End summary.

Pre-Conference Disappointment

12. (C) Many observers interested in Taiwan's Sustainable Economic Development Conference were disappointed Wednesday after all recommendations for cross-Strait opening measures were eliminated by the preparatory committee in a meeting late on July 25. The recommendations were removed due to strong opposition from TSU members of the committee, who included Huang Tien-lin and David Huang. The TSU and their allies had been waging a fierce public relations battle against further opening in the days leading up to the conference. Taiwan Advocates, a group of academics associated with Lee Teng-hui, had repeatedly stated its opposition to a wide range of cross-Strait liberalization measures. Chen Po-chih, the president of pro-independence leaning Taiwan Thinktank, had released a study on the negative effects of investment in the PRC on Taiwan's labor market a week before the conference. Opponents of further opening emphasized public opinion polls by the Mainland Affairs Council (MAC) that indicated most Taiwan residents believe investment controls should be strengthened and more than 70 percent support direct links only under certain conditions.

13. (C) The most controversial topic of the conference has been the ceiling on investment in the PRC, which limits investment by a Taiwan firm to no more than 40 percent of its total capital. Relaxation of the limit was one of the highest priorities of Taiwan industry. The preparatory committee on cross-Strait issues had originally considered language that suggested the government "review" (jiantao)

the 40 percent ceiling. TSU representative Huang Tien-lin had suggested that the recommendations specifically rule out any relaxation of the 40 percent rule until Taiwan investment in the PRC no longer exceeds 1 percent of GDP or 40 percent of total outward investment. Without a unanimous consensus, recommendations regarding the 40 percent rule were eliminated entirely from the preparatory committee's draft, leaving only vague language on a strong investment review system and review of technology-based restrictions on investment. Language calling for the promotion of frequent charter flights to build experience for eventual direct links was also removed. In a meeting with AIT econoff, Ketagalan Institute Acting President Kenneth Lin, a member of Taiwan Advocates and one of the drafters of the preparatory committees recommendations, argued that the MAC opinion polls were evidence the watered down recommendations represented a true consensus in Taiwan. Dr. Chu Yun-peng, a drafter with Pan-Blue sympathies, told AIT/T that the recommendations the committee produced were so vague they offered the administration no guidance at all.

"Other Opinions" Surprise

¶4. (C) However, in a surprise move during the plenary conference's July 27 discussions on the financial sector, relaxation of the 40 percent limit on investment was included in the conference report under the category of "other opinions." After a representative of Taiwan's IT industry raised the issue, Vice Premier Tsai Ing-wen urged its inclusion under "other opinions." The co-chairmen -- Premier Su Tseng-chang, Legislative Yuan (LY) President Wang Jin-pyng and Chung-Hwa Institute for Economic Research (CIER) Chairman Vincent Siew -- decided that

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recommendations supported by the majority but deleted by the preparatory committees for lack of unanimous consensus would be included under this category.

¶5. (C) The conference also inserted "other opinion" recommendations on cross-Straits finance. The cross-Straits committee's draft recommendations already included language calling for Taiwan banks to be allowed to open branches in the PRC and for the two sides to enter into consultations on supervisory mechanisms that would allow Taiwan bank regulators to exercise some authority over branches in the Mainland. This represented an important step because it did not exclude the possibility of industry-led discussions under the "Macao model" used to negotiate charter flights. However, the conference included even broader language under "other opinions" recommending that Taiwan banks also be permitted to have subsidiary banks in the PRC or hold stock in PRC banks. In addition, language was added encouraging Taiwan to permit representative offices of PRC banks.

TSU Drops Out

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¶6. (C) To protest the inclusion of the non-consensus items in the "other opinion" category, the TSU announced on the morning of July 28 that it would withdraw from the conference. The Friday morning session had been scheduled to discuss the cross-Straits recommendations. However, discussion was dominated by the legitimacy of the "other opinion" items that were included in the report during financial sector discussions the previous day. When announcing the TSU's withdrawal, party spokesman Lo Chih-ming said that the party could not allow individual opinions to override the consensus and would not participate in a meeting whose only purpose was to endorse cross-Straits opening measures. Afterwards, media reports

indicated that former President Lee Teng-hui would make a speech on July 29 in which he would criticize Premier Su's "revisionist path" (Su xiu luxian).

Market Reaction

17. (C) Some analysts speculated that the 0.2 percent drop in Taiwan's stock market on July 26 was a reaction to the news that investment liberalization had been eliminated from the draft recommendations. The market's moderate gain of 1.3 percent on the following day was due mostly to strong market performances in Tokyo, Hong Kong and elsewhere in the region. However, optimism about the conference may also have played a role. Friday also saw the stock index rise by 0.3 percent.

Comment - Su Forges Ahead

18. (C) Although the conference has done little to advance cross-Straits economic liberalization, Premier Su has clearly signaled his intention to move forward with further opening even in the face of strong Deep Green opposition. Some form of relaxation of the 40 percent limit appears likely to be an immediate priority. Industry-led discussions on charter flights and tourism will continue. Movement on cross-Straits banking and Renminbi exchange also look like good bets. Industry will applaud these efforts. Apparently, Su calculates that they will also be well received by many voters in the 2008 presidential election. However, the broader implications of a deepening TSU-DPP rift on cross-Straits economic policy remain to be seen.

YOUNG